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December 31, 2004

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Application of Development Service, Inc. for Approval of New Schedule
of Rates and Charges for Sewerage Service Provided to Residential and
Commercial Customers in all Areas Served
PSC Docket No.: 2004-212-S

Dear Charles:

Enclosed for filing please find twenty-six copies of surrebuttal testimony for the
following Office of Regulatory Staff witnesses: Dawn M. Hipp and Willie J. Morgan.
Please date stamp the extra copy enclosed and return it with our courier.

Please let me know if you have any questions.

Sincerely,

Shannon Bowyer Hudson

SBH/wot
Terreni ltr.4(12-31-04).doc

cc: Charles Cook, Esq.

Enclosures

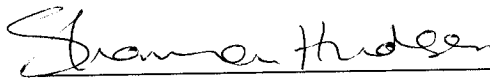
BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2004-212-S

IN RE: Application of DEVELOPMENT)
SERVICE, INC. for Approval of)
New Schedule of Rates and Charges)
For Sewage Service Provided to)
Residential and Commercial)
Customers in all areas Served.)

CERTIFICATE OF SERVICE

This is to certify that I, Shannon Bowyer Hudson, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the Surrebuttal Testimony and Exhibits of: Dawn M. Hipp and Willie J. Morgan, in the above-referenced matter to the person(s) indicated below by hand delivery:

Charles H. Cook, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, South Carolina 29205


Shannon Bowyer Hudson

December 31, 2004
Columbia, South Carolina

THE OFFICE OF REGULATORY STAFF
SURREBUTTAL TESTIMONY
OF
WILLIE J. MORGAN

DOCKET NO. 2004-212-S
DEVELOPMENT SERVICE, INC.
APPLICATION FOR RATE INCREASE
TEST YEAR ENDED DECEMBER 31, 2003



DOCKET NO. 2004-212-S
DEVELOPMENT SERVICE, INC.
APPLICATION FOR RATE INCREASE
TEST YEAR ENDED DECEMBER 31, 2003

SURREBUTTAL TESTIMONY OF WILLIE J. MORGAN

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2004-212-S

IN RE: DEVELOPMENT SERVICE, INC.

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Willie J. Morgan, and my business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina, Office of Regulatory Staff (ORS) as the Program Manager for the Water and Wastewater Department.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY
INVOLVING DEVELOPMENT SERVICE, INC. FOR THIS
PROCEEDING?**

A. The purpose of my testimony is to clarify ORS's position on certain issues raised by Mr. Keith G. Parnell in his rebuttal testimony concerning Development Service, Inc.'s (DSI) rate increase application and management practices.

**Q. FROM YOUR REVIEW OF THE DHEC CONSENT ORDER AND
DISCUSSIONS WITH DHEC STAFF, PLEASE EXPLAIN YOUR**

**UNDERSTANDING OF THE REQUIREMENTS THAT ARE DICTATED
TO BUSH RIVER UTILITIES, INC. (BRUI) IN THE CONSENT ORDER?**

A. In the interest of resolving certain DHEC cases, BRUI and DHEC entered into a Consent Order (03-049-W). According to the Consent Order as included in Exhibit I of Mr. Parnell's rebuttal testimony, BRUI agreed with DHEC to submit appropriate plans and specifications detailing how it will upgrade the wastewater treatment facility (WWTF) at BRUI to meet permitted discharge limits in its National Pollutant Discharge Elimination System (NPDES) permit. Contrary to Mr. Parnell's rebuttal testimony, the Consent Order by DHEC does not specify or dictate how the BRUI facility must be upgraded or how much money must be spent on the upgrade.

**Q. HOW WILL IMPROVEMENTS AT BRUI HELP TO STREAMLINE
OPERATIONS FOR DSI?**

A. Mr. Parnell testified in his rebuttal that making improvements will streamline operations, eliminate unnecessary costs and improve service to customers. This statement is not entirely accurate. There is no construction taking place at DSI. DSI customers will likely not even be aware of BRUI's construction. There is no obvious streamlining of operations following the construction, and it is unclear how construction at BRUI will improve DSI's customer's service. However, it should be recognized that a merger of DSI, BRUI, and Midlands Utility, Inc. (MUI) could help streamline operations and reduce operating costs for all of the utilities owned and operated by Mr. Parnell and his brother. For instance, customers may not be burdened with the added cost of having to pay for

1 management of multiple companies, the companies would not be required to file
2 three separate bonds as required by the Commission's regulations, and rate case
3 expenses would be incurred for only one company rather than for three
4 companies.

5 **Q. SHOULD A CONSTRUCTION LOAN BE THE BASIS FOR DSI's RATE**
6 **INCREASE WHEN THE PROCEEDS OF THE LOAN WILL NOT BE**
7 **USED BY DSI FOR CONSTRUCTION ON THE DSI SYSTEM?**

8 A. No.

9 **Q. PLEASE EXPLAIN.**

10 A. The Commission is being asked to approve an increase in rates to DSI's
11 customers so that BRUI and Midlands Utility, Inc. (MUI) can obtain financing for
12 improvements on the BRUI and MUI systems. DSI has no plans for construction
13 or improvements at this time. The construction loan that was obtained from
14 BB&T for \$2,021,400 is for upgrades and modernization of facilities at BRUI and
15 MUI. Furthermore, the Commission was not asked to approve assignment of
16 DSI's assets as collateral for the loan or notified that the assets of DSI were being
17 pledged as collateral for the loan. It appears that the Commission had no
18 knowledge of this loan prior to this case. As stated in my direct testimony, ORS
19 recommends that any rate increase given to DSI be conditioned on the
20 requirement that the three companies merge to form one company.

21 **Q. DID THE ORS AUDITORS DETERMINE THAT BRUI IS CHARGING**
22 **DSI 75% OF DSI'S REVENUE AS TREATMENT COST?**

1 A. Yes, however, this treatment charge by BRUI of 75% of DSI's revenues is a
2 function of the rate approved in Commission Order No. 96-44 (January 19, 1996),
3 Docket No. 94-727-S – Application of Development Service, Inc. for Approval of
4 an Increase in Rates and Charges for Sewer Service and Docket No. 94-728-S –
5 Application of Bush River Utilities, Inc. for Approval of an Increase in Rates and
6 Charges for Sewer Service.

7 **Q. ARE THE CONSTRUCTION AND FINANCING COSTS FOR THE BRUI**
8 **WWTF UPGRADES KNOWN AND MEASURABLE?**

9 A. No. At this point, ORS staff is still reviewing information concerning the BRUI
10 facility. We also have not received all of the requested information concerning
11 the proposed upgrade to BRUI. ORS's pre-filed testimony for the BRUI hearing
12 is not due until January 6, 2005. Therefore, we are not certain the financing needs
13 that have been identified by the facility are appropriate. In addition, we have not
14 completed the review of the construction proposal that has been submitted to
15 DHEC. BRUI's construction costs are not known and measurable since no
16 construction has begun and, as far as I am aware, there is no construction contract.
17 It would have been helpful if BRUI had filed its application for a rate increase
18 with the Commission before DSI filed its application for a rate increase. Had this
19 been done, the Commission would have had the opportunity to consider the
20 measurability of costs for BRUI prior to the DSI hearing.

21 **A. PLEASE DISCUSS THE ORS RECOMMENDATION THAT THE DSI**
22 **FACILITY BE DEPRECIATED OVER A 45-YEAR SERVICE LIFE.**

1 Q. ORS recommends a 45-year service life for the utility plant. DSI states in its
2 rebuttal testimony that depreciating the plant over 45 years is unrealistic and urges
3 the Commission to adopt a 20-year depreciation schedule. Contrary to DSI's
4 rebuttal testimony, a 45-year service life is realistic. In a prior Order, the
5 Commission rejected a proposal by DSI and Bush River Utilities, Inc. for an
6 accelerated plant depreciation of 20 years and instead allowed the DSI utility
7 plant to be depreciated over a 50-year life period. See Commission Order No. 96-
8 44 (January 19, 1996), Docket No. 94-727-S – Application of Development
9 Service, Inc. for Approval of an Increase in Rates and Charges for Sewer Service
10 and Docket No. 94-728-S – Application of Bush River Utilities, Inc. for Approval
11 of an Increase in Rates and Charges for Sewer Service. Further, ORS's
12 recommendation is based on Florida Public Service Commission Water and
13 Wastewater System Regulatory Law. ORS uses the NARUC definition for utility
14 plant depreciation which is defined as "the loss in service value not restored by
15 current maintenance, incurred in connection with the consumption or prospective
16 retirement of utility plant in the course of service from causes which are known to
17 be in current operation and against which the utility is not protected by
18 insurance." ORS's use of depreciation is not tied to financing. We reviewed the
19 projected useful life of the equipment or material. In this case the projected
20 service life of the system is forty-five (45) years.

21 Q. HAS DSI PROVIDED ANY INFORMATION SUPPORTING AN
22 OPERATING MARGIN OF 26%?

- 1 A. No. DSI's rebuttal testimony states that if the Commission grants DSI a single
2 increase, its operating margin must be closer to 26%. DSI did not suggest an
3 appropriate operating margin in its application, and it has not provided any
4 financial data to support an operating margin of 26%.